

SPECIAL



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REPORT

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BOSTON ENDS FISCAL 1992 WITH A SURPLUS

Repeating In The Next Two Years Will Be Difficult

The City of Boston ended fiscal 1992 with a \$2.6 million operating surplus, based on figures subject to minor audit adjustments. This represents a surplus of only 0.2%. Fiscal 1992 is the seventh consecutive year that the City has posted an operating surplus. On the revenue side, funds coming into the City amounted to \$1.324 billion, which is \$1.4 million less than projected. City spending totaled \$1.322 billion, which is \$4.0 million less than budgeted in fiscal 1992. Since the prior fiscal year, general fund revenues dropped by \$43.8 million or 3.2%, while spending declined by \$43.9 million or 3.2%.

In the four years since fiscal 1989, general fund revenues available to Boston increased by \$36.6 million or 2.8%, for an average annual increase of 0.7%. Property taxes assumed a larger share of the total as actual property tax receipts increased by \$95.5 million, while state aid decreased by \$74.7 million during this time. With limited revenue growth and increases registered by less discretionary items such as health insurance and debt service, spending has been cut for about 70% of city departments over four years. The budgets of only a few priority departments have increased over this time and none of these, except Suffolk County departments, with the new jail and house of corrections, have kept pace with inflationary growth.

FISCAL 1992 BUDGET VS. ACTUAL SUMMARY FIGURES IN 000'S				
	BUDGET	ACTUAL	SURPLUS (DEFICIT)	%
REVENUES	\$1,325,581	\$1,324,202	(\$1,379)	-0.1%
EXPENDITURES	\$1,325,581	\$1,321,557	\$4,024	0.3%
SURPLUS	\$0	\$2,645		

TABLE 1

THE BUDGET PROCESS

The budget used to compare actual revenues and expenditures in fiscal 1992 is the City's final spending authority of \$1.326 billion. The details of this budget have changed several times from the original city, county and school budget of \$1.333 billion approved by the Mayor and City Council in June, 1991. These changes happened as a result of a combination of spending cuts, supplementary appropriations and reallocation of funds.

The first change occurred in December, 1991, when the City set its tax rate. Due to a cut of \$15.7 million in state aid and a need to reduce original revenue estimates in accounts such as parking fines, the City was required to reduce its spending plan in order to maintain a balanced budget. The Mayor, through an Executive Order, reduced the resources available to 24 departments and services by \$10.8 million. (See Box)

Additionally in fiscal 1992, the Mayor, as allowed by the letter but not the spirit of the law, reallocated from the debt service and pension accounts, \$2.8 million among 20 departments. City appropriations were further revised when the City was able to reduce, on a one-time basis, its retirement appropriation by \$17.5 million in January, 1992, based on a revised actuarial schedule approved by the Public Employment Retirement Administration (PERA). From this savings, the City was able to appropriate \$8.0 million in supplemental funds for the School Department and reserve the balance of \$9.5 million to offset year-end departmental deficits and insure a surplus for the year. From another source, \$1.0 million was used to fund supplementary appropriations for two other departments. Collectively, these actions brought the final fiscal 1992 spending authority of the City to \$1.326 billion, \$7.2 million less than originally planned.

FISCAL 1992 REVENUES

City revenues for fiscal 1992, totaled \$1.324 billion, or \$1.4 million less than what was budgeted. A review of the City's revenue accounts reveals that 43% of the accounts posted revenues less than projected in the budget, for a total loss of \$17.6 million. The remaining 57% of the accounts generated revenues \$16.2 million higher than anticipated, resulting in a net revenue deficit of \$1.4 million. In part, reflecting the economy, three revenue accounts posted amounts significantly under budget projections: Investment Income (-\$6.1 million), Aircraft Fuel Tax (-\$1.8 million) and Prior Year Reimbursements (-\$1.9 million). Accounts generating revenues higher than estimated include: Cost & Interest On Taxes (+\$1.3 million), Licenses & Permits (+\$1.1 million), Payments In-Lieu-Of Taxes (PILOT) (+\$5.2 million) and Street, Sidewalk & Curb Repairs (+\$3.1 million). The increase in PILOT payments is, in large part, due to a one-time payment resulting from a change in the Prudential Center's tax agreement. Additionally, the Street, Sidewalk and Curb account increased due to the transfer of approximately \$3.4 million into this account from a special revenue reserve account.

REVENUE TRENDS, FY89-FY92

Since fiscal 1989, the City's general fund revenue base has been growing, however, the makeup of this revenue base has changed considerably. The property tax and state aid remain the two largest revenue sources for the City, generating almost 70% of the City's revenues in both fiscal 1989 and fiscal 1992. However, since fiscal 1989, there has been a clear and distinct shift to a greater reliance on the property tax as the state aid share declined. In the last four years, state aid, as a percent of total general fund revenues, has reduced from 33.4% in fiscal 1989 to 27.0% in fiscal 1992. In contrast, the property tax accounted for 36.0% of city revenues in fiscal 1989 and its share increased to 42.0% in fiscal 1992. In dollar terms, property taxes increased by \$95.5 million, while state aid was reduced by \$74.7 million during this period.

Revenues available to Boston over the last four years have increased by \$36.6 million or 2.8%, an average annual increase of 0.7%. However, much of this increase is attributable to non-recurring sources. In response to state aid cuts and decreases in revenues affected by the economy, the City since fiscal 1989 has turned to one-time revenues to support operations such as: Payments-In-Lieu Of Taxes (PILOT) (+\$13.9 million), Sale of Property (+\$10.5 million), Parking Fines (+\$8.3 million), Meter Fees (+\$8.0 million)

WHERE THE MONEY COMES FROM FIGURES IN 000'S							
	FY89	FY91	FY92	CHANGE 91-92	%	CHANGE 89-92	%
PROPERTY TAX	\$460,004	\$529,148	\$555,492	\$26,343	5.0%	\$95,487	20.8%
STATE AID	\$430,298	\$395,913	\$355,644	(\$40,269)	-10.2%	(\$74,654)	-17.3%
DEPARTMENTAL REVENUES	\$321,650	\$345,676	\$335,413	(\$10,263)	-3.0%	\$13,763	4.3%
PARKING FINES	39,142	49,894	47,413	(2,481)	-5.0%	8,272	21.1%
HOSPITAL RECEIPTS	154,745	179,927	168,212	(11,715)	-6.5%	13,467	8.7%
LICENSES & PERMITS	20,145	14,321	16,864	2,543	17.8%	(3,281)	-16.3%
INVESTMENT INCOME	22,347	14,504	10,610	(3,894)	-26.8%	(11,737)	-52.5%
BUILDING PERMITS	11,423	6,689	9,136	2,447	36.6%	(2,287)	-20.0%
PILOTS	17,861	21,275	31,756	10,482	49.3%	13,895	77.8%
OTHER DEPARTMENTAL	55,988	59,066	51,421	(7,644)	-12.9%	(4,566)	-8.2%
MOTOR VEHICLE EXCISE	\$25,818	\$18,865	\$18,922	\$56	0.3%	(\$6,896)	-26.7%
FREE CASH	\$15,035	\$38,569	\$10,907	(\$27,662)	-71.7%	(\$4,128)	-27.5%
SALE OF PROPERTY	\$2,000	\$500	\$12,516	\$12,016	2403.2%	\$10,516	525.8%
HOTEL EXCISE	\$13,580	\$14,656	\$12,945	(\$1,711)	-11.7%	(\$635)	-4.7%
JET FUEL EXCISE	\$12,961	\$13,264	\$11,571	(\$1,692)	-12.8%	(\$1,390)	-10.7%
ALL OTHERS	\$6,219	\$11,458	\$10,793	(\$665)	-5.8%	\$4,574	73.5%
GRAND TOTAL	\$1,287,566	\$1,368,049	\$1,324,202	(\$43,847)	-3.2%	\$36,636	2.8%

TABLE 2

and Street, Sidewalk and Curb Repairs (+\$3.4 million). While a few revenue categories such as PILOT payments are not traditionally considered non-recurring revenues, they are listed here because their increase since fiscal 1989 is attributable to a one-time situation. Large increases from permanent recurring sources were generated by: the Property Tax (+\$95.5 million) and Hospital Receipts (+\$13.5 million).

During these same four years, Boston experienced a drop in several important sources of revenue, primarily reflecting the downturn in the economy. State Aid posted the largest revenue decline (-\$74.7 million), followed by Investment Income (-\$11.7 million), Motor Vehicle and Boat Excise Taxes (-\$6.9 million), Court Settlements (-\$4.8 million), Free Cash (-\$4.1 million) and Building Permits (-\$2.3 million).

FISCAL 1992 SPENDING

City spending for fiscal 1992 totaled \$1.322 billion, \$4.0 million less than was budgeted. This surplus is due primarily to a reduction in Boston's retirement cost after the budget was set, which allowed \$9.5 million to be used to offset deficit spending in various accounts. A review of fiscal 1992 spending reveals that a majority of the departments spent below their authorized budgets. Of the total 40 accounts, 28 or 70.0% spent below their budgets by a total of \$6.2 million, while 10 or 25.0% overspent their fiscal 1992 budgets by a total of \$11.4 million (TABLE 4). The two remaining accounts spent their budgeted amount. The

WHERE THE MONEY GOES FIGURES IN 000'S							
	FY89	FY91	FY92	CHANGE 91-92	%	CHANGE 89-92	%
CITY DEPARTMENTAL	\$473,257	\$500,125	\$478,913	(\$21,212)	-4.2%	\$5,656	1.2%
FIRE	79,587	85,082	84,544	(538)	-0.6%	4,957	6.2%
HEALTH INSUR.	39,612	57,317	61,923	4,606	8.0%	22,311	56.3%
LIBRARY	21,472	21,819	20,594	(1,225)	-5.6%	(878)	-4.1%
PARKS	12,889	11,486	9,545	(1,941)	-16.9%	(3,344)	-25.9%
POLICE	117,146	126,125	126,427	301	0.2%	9,281	7.9%
PUBLIC WORKS	62,642	65,079	51,860	(13,219)	-20.3%	(10,782)	-17.2%
OTHER	139,909	133,216	124,020	(9,196)	-6.9%	(15,889)	-11.4%
HOSPITALS	179,413	194,358	183,045	(11,313)	-5.8%	3,633	2.0%
SCHOOL	355,391	388,973	381,962	(7,011)	-1.8%	26,571	7.5%
SUFFOLK COUNTY	24,512	31,651	32,873	1,222	3.9%	8,361	34.1%
DEBT	78,335	86,014	86,032	17	0.0%	7,697	9.8%
RETIREMENT	120,533	113,033	106,325	(6,708)	-5.9%	(14,208)	-11.8%
ASSESSMENTS	48,322	51,343	52,407	1,065	2.1%	4,085	8.5%
TOTAL	\$1,279,763	\$1,365,498	\$1,321,557	(\$43,941)	-3.2%	\$41,794	3.3%

TABLE 3

expenditures of the 10 accounts

totalled \$719.9 million and represented 54.5% of total fiscal 1992 expenditures. The deficit spending occurred in most of the departments that provide essential city services, such as Police, Fire, Suffolk County and Health and Hospitals. These departments were expected, in the Mayor's Executive Order, to cut their spending, but in reality they failed to fully comply with this directive, resulting in the deficit spending. The largest deficit occurred in a non-departmental account, Execution of Courts. The School Department posted a surplus of \$38,122, the second consecutive year a surplus has been achieved by the Department.

EXPENDITURE TRENDS, FY89-FY92

In the four years since fiscal 1989, city spending grew by \$41.8 million or 3.3%, for an annual average increase of 0.8%. The increase in spending since fiscal 1989, has allowed only a few priority departments to receive budget increases over the past few years. With limited revenue growth and other spending increases registered by non-departmental accounts such as Health Insurance, Workers Compensation, Execution of Courts, State Assessments and Debt Service, approximately 70% of city departments have had their spending levels reduced. The reductions have affected direct service departments such as Parks, Public Works, Public Facilities and Real Property.

FISCAL 1992 ACCOUNTS SPENDING OVER BUDGET FIGURES IN 000'S				
	BUDGET	ACTUAL	DEFICIT	% OVER
EXECUTION OF COURTS	\$5,000	\$10,234	(\$5,234)	-104.7%
ADMIN. SERV.	15,453	17,373	(1,920)	-12.4%
POLICE	124,433	126,427	(1,994)	-1.6%
FIRE	83,550	84,544	(994)	-1.2%
HOSPITALS	182,078	183,045	(967)	-0.5%
SUFFOLK COUNTY	32,721	32,873	(152)	-0.5%
ASSESSMENTS	52,323	52,407	(84)	-0.2%
RETIREMENT COSTS	106,240	106,325	(85)	-0.1%
DEBT	86,028	86,032	(4)	0.0%
LIBRARY	20,593	20,594	(1)	0.0%
TOTAL OF 10 ACCTS.	\$708,420	\$719,854	(\$11,434)	-1.6%

TABLE 4

MAJOR REDUCTIONS IN SPENDING FISCAL 1989 - 1992 FIGURES IN 000'S

	FY89	FY92	CHANGE	%
ASSESSING	\$6,536	\$4,770	(\$1,766)	-27.0%
REAL PROPERTY	8,261	6,101	(2,160)	-26.1%
PARKS	12,889	9,545	(3,344)	-25.9%
PUBLIC FACILITIES	19,529	15,603	(3,926)	-20.1%
PUBLIC WORKS	62,642	51,860	(10,782)	-17.2%
INSPECTIONAL SERV	10,004	8,378	(1,626)	-16.3%
ADMIN. SERV.	19,938	17,373	(2,565)	-12.9%
RETIREMENT COSTS	120,533	106,325	(14,208)	-11.8%

TABLE 5

Administrative departments such as Assessing, Treasury, Law, Personnel and Budget were also affected. A few of these departments have turned to external grant funds that are not included in the general fund expenditures to supplement their budgets. As expected, the hardest hit were the City's smaller departments and agencies that are not considered to provide essential services. Table 5 highlights major reductions during this time.

The City's priority areas, based on actual spending increases from fiscal 1989 through fiscal 1992 include: Schools (+\$26.6 million or 7.5%), Police (+\$9.3 million or 7.9%), Suffolk County (+\$8.4 million or 34.1%), Fire (+\$5.0 million or 6.2%), Youth Services (+\$4.3 million or 100%) and Health & Hospitals (+\$3.6 million or 2.0%). With the exception of

the Suffolk County departments, none of the major priority services kept pace with inflationary growth over the past four years. Accounts which also reported increases but over which the City exercises less discretion include: Health Insurance (+\$22.3 million or 56.3%), Debt Service (+\$7.7 million or 9.8%), Execution of Courts (+\$4.2 million or 70.4%) and Assessments (\$4.1 million or 8.5%).

EXECUTIVE ORDER CUTS

How effective was the Mayor's Executive Order in cutting spending in 24 departments by a total of \$10.8 million in fiscal 1992? The answer is that the response was uneven. The Order was totally ignored by the Police and Fire Departments, only partially implemented by the Health & Hospitals Department and three other departments and fully adopted and even exceeded by 15 departments, which constituted 51.6% of the cuts. In three departments, reallocations after the Order, negated the cuts entirely. This experience clearly indicates that a reduction of departmental appropriations, approved by the City Council, would be the more appropriate means to cutting departmental spending. The end result was that the 24 departments posted a net year-end surplus of \$37,828. In the future, spending reductions should be achieved through the cutting of appropriations, not by Executive Order cuts.

The Executive Order cuts in the public safety departments received the most notoriety but, in fact, they turned out to be nothing but a paper tiger having absolutely no impact. The Police Department budget of \$126,433,000 was to be cut by \$2.0 million or 1.6%. However, the Department actually spent \$126,426,530 or only \$6,470 less than its original budget and ended the year with a deficit of \$1,993,530. The Fire Department was expected to cut \$500,000 or 0.6% from its budget of \$84.1 million. Instead, the Department actually spent \$494,142 in excess of its original budget for a deficit of \$994,142. Three departments partially implemented the cuts. For example, the Health & Hospitals Department budget of \$184.1 million was ordered to be cut by \$2.0 million or 1.1%. The Department's total expenditures were \$183.0 million, indicating that about one-half of the cut was implemented. As a consequence of ignoring or only partially implementing the cuts, these five departments ended the year with a deficit totaling \$4.1 million.

Three departments were assigned cuts totaling \$70,000 but received reallocations totaling \$205,000, thereby negating the cuts. For example, the Law Department was ordered to cut its budget by \$35,000 but later received a reallocation of \$115,000. The added resources enabled these departments to end the year with an aggregate surplus of \$332,130. The Treasury Department was cut by \$120,000, received a reallocation of \$75,000 and ended the year with a surplus of \$109,141. The Executive Order was effective for fifteen departments, which were asked to cut their budgets by an aggregate of \$5.6 million. Each department exceeded the cuts requested and ended the year with a surplus totaling \$3.7 million. That represented an overall reduction from their original budgets of \$9.3 million or 7.3%.

LOOKING AHEAD

The City of Boston faces difficult financial problems this year and next. This month the City will set its fiscal 1993 tax rate, which must be based on a balanced budget. However, this will not be a guarantee that the City will finish this year with a surplus. In fiscal 1993, the School Department currently is projected to spend about \$3.0 million over its budget and Police Department overtime costs are running \$2.0 million over budget, \$1.5 million of that attributable to Sail Boston. On the revenue side, it is still uncertain whether the Health and Hospitals Department will collect, in full, the budgeted receipts of \$158.0 million as the State implements Chapter 495 in its effort to manage health care costs by fostering increased competition among hospitals.

In fiscal 1994, revenue growth for general government services will be limited. Whether state aid, which is expected to be earmarked for education in the form of categorical grants, will increase will depend on whether the education reform bill will be approved by the Legislature and Governor. With projections that state tax revenues will increase by less than 1.0% or \$90.0 million in fiscal 1994, increases for school grants could be offset by cuts in other local aid accounts. The School Department estimates that to maintain the same level of services next year, it faces a potential gap of \$15.0 million. Next year the City may not be able to postpone salary increases any longer since by then most employees will have not received a raise for three years. Each one percent for all employees will cost about \$6.6 million. If any contracts are negotiated, they should include productivity improvements.